

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Western Washtenaw Recycling Authority	County Washtenaw
Fiscal Year End December 31, 2006	Opinion Date June 22, 2007	Date Audit Report Submitted to State June 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

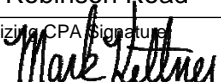
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673

WESTERN WASHTENAW RECYCLING AUTHORITY

Chelsea, Michigan

ANNUAL FINANCIAL STATEMENTS

**For The Year Ended
December 31, 2006**



REHMANN ROBSON

Certified Public Accountants

WESTERN WASHTENAW RECYCLING AUTHORITY

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REHMANN ROBSON

Certified Public Accountants

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 *an independent member of*
BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

June 22, 2007

Board of Directors
Western Washtenaw Recycling Authority
Chelsea, Michigan

We have audited the accompanying financial statements of the **WESTERN WASHTENAW RECYCLING AUTHORITY** as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Western Washtenaw Recycling Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Western Washtenaw Recycling Authority, as of December 31, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Western Washtenaw Recycling Authority has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

FINANCIAL STATEMENTS

WESTERN WASHTENAW RECYCLING AUTHORITY

Statement of Net Assets

December 31, 2006

ASSETS

Current assets

Cash and cash equivalents	\$ 137,520
Amounts on deposit with Washtenaw County	850,727
Special assessments receivable	350,970
Accounts receivable	31,470
Prepaid expenses	15,186

Total current assets 1,385,873

Capital assets

Buildings	264,059
Equipment	799,898
Total	1,063,957
Less: Accumulated depreciation	517,556

Net capital assets 546,401

Total assets \$ 1,932,274

LIABILITIES AND NET ASSETS

Current liabilities

Accrued liabilities	\$ 25,275
Accrued wages	10,594

Total liabilities 35,869

Net assets

Invested in capital assets	546,401
Unrestricted	1,350,004

Total net assets 1,896,405

Total liabilities and net assets \$ 1,932,274

The accompanying notes are an integral part of these financial statements.

WESTERN WASHTENAW RECYCLING AUTHORITY

Statement of Revenue, Expenses and Changes in Net Assets For the Year Ended December 31, 2006

Operating revenue	
Special assessments	\$ 376,841
Sale of recycled materials	313,735
Other revenue	11,646
	<hr/>
Total operating revenue	702,222
	<hr/>
Operating expenses	
Personnel services	278,668
Contractual services	80,222
Supplies	3,674
Transportation	32,029
Utilities	9,941
Repairs and maintenance	48,118
Insurance	7,566
Depreciation	72,811
Promotion and advertising	2,579
Miscellaneous	40,291
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Total operating expenses	575,899
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Operating income	126,323
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Non-operating revenue and expense	
Interest revenue	48,456
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Change in net assets	174,779
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Net assets, beginning of year	1,721,626
	<hr/>
Net assets, end of year	\$ 1,896,405
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The accompanying notes are an integral part of these financial statements.

WESTERN WASHTENAW RECYCLING AUTHORITY

Statement of Cash Flows For the Year Ended December 31, 2006

Cash flows from operating activities

Cash received from customers, residents and users	\$ 493,540
Other operating receipts	11,646
Cash paid to employees	(280,804)
Cash paid to suppliers	<u>(259,889)</u>

Net cash used in operating activities (35,507)

Cash flows from capital and related financing activities

Purchase of property and equipment	(33,399)
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Cash flows from investing activities

Interest earned on investments	<u>48,456</u>
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Net decrease in cash and cash equivalents (20,450)

Cash and cash equivalents, beginning of year 157,970

Cash and cash equivalents, end of year \$ 137,520

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 126,323
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	72,811
Changes in assets and liabilities:	
Amount on deposit with Washtenaw County	(75,665)
Special assessments receivable	(109,411)
Accounts receivable	(11,960)
Prepaid expenses	(15,186)
Accrued liabilities	(20,283)
Accrued wages	<u>(2,136)</u>

Net cash used in operating activities \$ (35,507)

The accompanying notes are an integral part of these financial statements.

WESTERN WASHTENAW RECYCLING AUTHORITY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Western Washtenaw Recycling Authority (“Authority”) provides recycling services primarily for the benefit of citizens within the Authority’s special assessment districts in Washtenaw County, Michigan. The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

Reporting Entity

The Authority is governed by a Board of Directors that is appointed by the member municipalities. As required by generally accepted accounting principles, these financial statements present the Western Washtenaw Recycling Authority. The Authority has no component units that are required to be included in the financial statements.

Basis of Accounting

The Authority utilizes a single enterprise fund (proprietary fund type) and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The Authority is accounted for on a cost of services or *economic resources* measurement focus. This means that all liabilities (whether current or non-current) associated with its activity are included on the statement of net assets and its operating statement presents increases (revenues) and decreases (expenses) in net assets.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

WESTERN WASHTENAW RECYCLING AUTHORITY

Notes To Financial Statements

Cash and Cash Equivalents

The Authority considers all investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Amounts on Deposit with Washtenaw County

The Authority has an account with Washtenaw County whereby special assessment payments are collected and certain disbursements are approved. The account was set up to provide assurance that the monies received from special assessments would be properly accounted for and disbursed.

Property and Equipment

Capital assets, which include property and equipment, are recorded at cost. Donated capital assets, if any, are recorded at estimated fair value at the date of donation. Maintenance and repairs are charged to expense as incurred and renewals and betterments are capitalized on the basis of cost. Depreciation is computed under the straight-line method at annual rates which are sufficient to amortize the gross carrying amounts over the estimated useful lives of the assets, which are as follows:

	<u>Years</u>
Buildings and building improvements	15-50
Equipment, furniture and fixtures	7-20

2. CASH AND CASH EQUIVALENTS

At year end, the carrying amount of deposits for the Authority was \$137,520. The combined bank balance was \$144,939. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balance of \$44,939 was uninsured and uncollateralized.

WESTERN WASHTENAW RECYCLING AUTHORITY

Notes To Financial Statements

3. CAPITAL ASSETS

The Authority's capital assets activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Buildings	\$ 264,059	\$ -	\$ -	\$ 264,059
Equipment	766,500	33,399	-	799,899
Less accumulated depreciation for:				
Buildings	(61,407)	(5,275)	-	(66,682)
Equipment	<u>(383,339)</u>	<u>(67,536)</u>	<u>-</u>	<u>(450,875)</u>
Capital assets, net	<u>\$ 585,813</u>	<u>\$ (39,412)</u>	<u>\$ -</u>	<u>\$ 546,401</u>

4. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits. The Authority uses commercial insurance for all claims other than workers' compensation claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation claims.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



June 22, 2007

To the Board of Directors of the
Western Washtenaw Recycling Authority
Chelsea, Michigan

We have audited the financial statements of Western Washtenaw Recycling Authority for the year ended December 31, 2006, and have issued our report thereon dated June 22, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated April 18, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Western Washtenaw Recycling Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Western Washtenaw Recycling Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Western Washtenaw Recycling Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Western Washtenaw Recycling Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Western Washtenaw Recycling Authority, either individually or in the aggregate, indicate matters that could have a significant effect on Western Washtenaw Recycling Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Western Washtenaw Recycling Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Directors, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".

Western Washtenaw Recycling Authority

Comments and Recommendations

For the Year Ended December 31, 2006

In planning and performing our audit of the financial statements of Western Washtenaw Recycling Authority as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

Significant Deficiencies

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Authority's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Authority lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Western Washtenaw Recycling Authority

Comments and Recommendations (Concluded)

For the Year Ended December 31, 2006

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Authority's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Authority's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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